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SUBJECT: CENTRAL BANK'S GOVERNOR GIVES OPTIMISTIC READOUT OF
SUDANESE ECONOMY

REF: KHARTOUM 1403

¶1. (U) SUMMARY: In a September 19 visit with EconOffs, the Governor of the Central Bank of Sudan, Dr. Sabir Hassan, presented an optimistic outlook of the Sudanese economy. Although Hassan named U.S. sanctions, economic diversification, and poverty reduction as challenges, he stated that the Sudanese economy continues to grow and attract foreign direct investment (FDI). Hassan also discussed the Central Bank's role in the implementation of the Comprehensive Peace Agreement (CPA), the move away from U.S. dollars for international transactions, and the emerging Sudanese banking sector. END SUMMARY.

KEY INDICATORS ARE POSITIVE

¶2. (U) Hassan opened by reviewing the Central Bank of Sudan's relationship with the International Monetary Fund (IMF) and recent successes in macro-economic policy. Although Sudan is ineligible to receive international financial institution (IFI) financing due to its current debt arrearage, Sudan values the IMF's technical assistance. The IMF's two major concerns are a lack of fiscal discipline and Sudan's reliance on non-concessional borrowing. In 2006, Sudan (both the Government of National Unity in Khartoum and the Government of South Sudan) had glaringly failed to restrain expenditures when oil revenues fell short of forecasts. The new IMF Staff Monitored Program (reftel) will seek to address this problem. On the second concern, Hassan pointed out that Sudan has no choice but to rely on non-concessional borrowing, since it is ineligible for IFI financing. However, Sudan will seek to limit such borrowing as much as possible. Hassan stated that Sudan has fulfilled the requirements set for the IMF's Highly Indebted Poor Countries (HIPC) initiative, and hopes it will become eligible for debt relief in the near future.

3 (U) Hassan noted that Sudan's inflation rate decreased from the double digits in the 1990's to single digits in the last several years. (Note: The 2006 rate of inflation in Sudan was estimated at 7.2 percent.) Hassan also said that Sudan stabilized its currency through a managed float system. He stated that over the last several years the dinar has significantly appreciated against the dollar, making non-oil exports less competitive, but that the FX rate has stabilized in the last year. Hassan noted that he expects the Sudanese economy to continue to grow at a rapid rate and to attract Foreign Direct Investment (FDI). According to Hassan, Sudan was the "second or third strongest country in Africa for attracting investment."

4 (U) Hassan stated that Sudan has become dependent on oil revenues which constitute 70% of total exports. Although he described the oil industry as the "main engine of economic growth" he stated that FDI has started to diversify to the telecommunications, transport, and agricultural sectors. He added that the Sudanese agricultural sector is "not growing at rates that we would like to see, especially considering that our comparative advantage is in agriculture." Although he considers agriculture to be a "risk

sector," Hassan asserted that there is great potential for agricultural development in Sudan.

BANKING SECTOR

5 (U) According to Hassan, the Government of Sudan (GoS) has taken measures to reform and improve the banking sector. The GoS encouraged banks to merge, improve their profitability, and comply with international banking standards (e.g. Basel II). He claimed that the Sudanese banking sector attracted over \$2 billion in foreign direct investment, with many new international banks such as Byblos, Capital, Salaam, and Emirates opening branches in Sudan in the last several years.

IMPLEMENTATION OF THE CPA

6 (U) Hassan reviewed the Central Bank of Sudan's role in implementing the Comprehensive Peace Agreement (CPA) through the successful currency conversion from the dinar to the pound and through establishing the Bank of Southern Sudan (BoSS). Hassan described the BoSS as a branch of the Central Bank of Sudan with the same board of governors, consisting of three representatives from South Sudan and six representatives from the North. The Governor of the BoSS is Deputy Governor of the Central Bank of Sudan and a member of its board. Hassan said that there are currently three branches of the bank of Sudan in the south. With the creation of two additional branches, he asserted that "that should be enough for the time being in the South."

U.S. SANCTIONS

7 (U) Hassan described tightened U.S. sanctions on Sudan as a "serious problem." He stated that conducting transactions in dollars has become more difficult. He added that the GoS has been forced to use other currencies for international transactions. He stated that they have not relied upon any single currency for international transactions. He said that Euro and the Australian Dollar are often used as alternatives, but that the choice of currency depends on the region of the world and the entities involved in the transaction. He stated that U.S. sanctions have affected both the private sector and the government, and said that he has seen how money can be confiscated by the Office of Foreign Assets Control of the U.S. Department of Treasury. Although labeling sanctions as "a serious problem," Hassan added that "the sanctions will not stop life, there is always someone else to come and help."

CHALLENGES AHEAD

18. (U) Hassan described Sudan as a country blessed with huge resources, but held back historically by bad economic policy. He identified the most critical challenge as maintaining the political stability needed to let good economic policies work. On strictly economic issues, Hassan said Sudan must prudently manage its oil revenues, so as to avoid the "oil disease" that has plagued other countries. Then it must adopt policies that will spread growth and prosperity beyond the confines of the Khartoum-Nile region to the rest of the country. Another problem is that the efficacy of resource transfers from Khartoum is constrained by a lack of capacity elsewhere. The IMF plans to help Sudan develop a Poverty Reduction Strategy Paper in 2008.

19. (U) Hassan concluded that he is "very optimistic about the future of the Sudanese economy." Although the challenges of economic diversification, U.S. sanctions, and poverty reduction exist, he stated that he is confident that the Sudanese economy will continue to grow.

110. (SBU) BIO DATA: Dr. Sabir Hassan was born in January 1945. He graduated from Khartoum University in 1968 with a B.S. in Economics, and in 1974 with a diploma in commercial law. He earned both an MA and a PhD from Syracuse University in New York in 1982.

Hassan said that he has lived a total of 14 years in the U.S., either as a student or as an IMF staffer and that four of his children are American citizens by birth. Hassan was open and friendly and gave every indication of being favorably disposed to the U.S.

FERNANDEZ